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HOW WILL HIGHER TRANSPORTATION COSTS, REGULATORY CHANGE AND ECONOMIC RECESSION AFFECT TRUCKING SERVICES FOR OHIO AGRICULTURE?

By

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An interim report prepared for the Ohio Department of Agriculture on a contract with the Department of Agricultural Economics and Rural Sociology at The Ohio State University and the Ohio Agricultural Research and Development Center.

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This is the fourth interim report on a series of studies analyzing transportation services for Ohio Agriculture. The authors wish to thank Karlene Robison and Kathy Weaver for their most valuable assistance in the preparation of this report.

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Introduction

In 1977, Ohio elevators and grain processing firms received 114,444,000 bushels of grain[1/] from out-of-state origins. Of this, 95 percent was carried by truck from states such as Michigan, Indiana, and Kentucky. While the water[2/] and rail modes controlled over 94 percent of grain shipments moving from Ohio to out-of-state destinations, the truck mode is the decided choice of grain shippers for short hauls.

Most grain moving out of Ohio must travel long distances to export terminals at the Gulf of Mexico or the Atlantic Coast, to export destinations via the Great Lakes, or to domestic users in the Southeast. The efficiencies of water and rail are necessary for these long-distance movements. However, for shorter distance grain hauling such as movements from farms to country elevators and from country elevators to terminal elevators, the versatility and speed of trucking cannot be matched.

In addition to hauling grain, trucks serve agriculture by delivering to farmers and supply stores such products as dry and liquid

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1/ "Grain" as it is used here includes corn, soybeans, wheat, and oats. Statistics are taken from Hennen, et al., Ohio Grain Flows by Mode of Transportation and Type of Grain Firms for 1970 and 1977: A Comparison.

2/ "Water" modes include barge shipping via the Ohio River and shipping via the Great Lakes and the St. Lawrence Seaway.

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fertilizers, feeds, seeds, petroleum, and heating oil as well as numerous other items which are vital to agricultural operations. It can be stated unequivocally that any issue affecting the trucking industry also affects agriculture.

This report will analyze the issues surrounding the trucking industry as it affects Ohio agriculture. Included in this analysis will be a discussion on the Motor Carrier Act of 1980 and its effect on interstate movements of agricultural products. Intrastate agricultural movements in Ohio will be covered in an examination of this state's trucking regulations as they are administered by the Public Utilities Commission of Ohio (PUCO). Another issue concerns the use of backhauling and intermodal transportation as ways to save on transportation costs. Finally, this report will look at the trucking industry overall and point out how such factors as unions, the state of the economy, and competition may affect Ohio agriculture in the next few years.

The Motor Carrier Act of 1980

The Motor Carrier Act of 1980 is billed as part of a recent effort by Congress to promote competition and improve services in the transportation industry. By easing entry requirements and allowing firms more autonomy in setting trucking rates, the 1980 Act reduces the role of the Interstate Commerce Commission and encourages market forces to determine the optimal allocation of trucking services. Highlights of the 1980 Act are as follows:

1) The amount of non-farm, non-member traffic that agricultural cooperatives can haul interstate increased from

15 percent to 25 percent of their total annual interstate tonnage.

2) Anything which was exempt from ICC regulations prior to the 1980 Act remains totally exempt. Substantial additions were made to the list of exempt commodities including shellfish byproducts (used as a source of calcium in poultry rations), livestock and poultry feeds, and agricultural seeds and plants. Feeds, seeds, and plants are exempt only if they are being transported to a site of agricultural production or to an enterprise engaged in reselling these products.

3) The same truck can carry regulated and exempt goods without affecting the regulated or exempt status of the goods.

4) Fit, willing, and able is the only test a firm must pass to obtain a certificate to haul processed foods, fertilizers, limestone and other soil conditioners. However, the certificate is only valid if the owner is in the vehicle and such transportation, on an annual basis, does not exceed the tonnage carried by the vehicle of exempt unprocessed agricultural commodities.

5) Intercorporate hauling is exempt from ICC regulation where a parent company owns directly or indirectly 100 percent of subsidiary companies.

6) Rate bureau meetings and vote records are open to the public. A rate bureau may not interfere with a carrier's right of independent action. Under the new law, truck

rates may be raised or lowered 10 percent per year based on the preceding year's rate, provided that carriers act independently. The ICC can extend the 10 percent range by an additional 5 percentage points in any single year.

Implications of the 1980 Motor Carrier Act

Shippers, carriers, and regulatory officials in the trucking industry generally agree that the major impact of the 1980 Act will come from the new ease of entry provisions. Prior to the 1980 Act, any firm applying for a trucking authority had to demonstrate that it was fit, willing, and able to provide the proposed trucking services. Applicants also had to prove that present or future public convenience or necessity required the proposed services and that these new operations would not endanger or impair operations of existing carriers. With the 1980 Act, firms must now demonstrate only the ability to provide service and the public need for such services. Applicants interested in providing service to communities which either do not have common carrier trucking service or which have recently lost rail service must show only that they are fit, willing, and able to provide service.

With the relaxation of entry requirements, a proliferation of applications for operating authorities have been filed with the ICC. In the 9 months following the passage of the 1980 Act 1,145 motor common carriers filed authority applications for the first time. On a basis of an average daily number of filings, applications increased 137 percent after passage of the 1980 Act.

Equally significant is the number of existing carriers which are applying for extensions of authority. Several carriers have recently received extensions which enable them to provide service nationwide.

Despite the increase in the number of new trucking firms and the extensions given to the operating authorities of existing firms, it is difficult to determine the effect of the 1980 Act on competition in the trucking industry. Most Ohio trucking firms state that while business in truck freight has been hard to attract, the sluggish economy is probably more of a reason for the lack of traffic than is any increase in the number of competitors.

Rate cutting in truck freight is taking place at unprecedented levels as carriers scramble to win enough business to at least cover their fixed costs.[3/] One Ohio trucking firm reports that it has experienced a 40 percent decline in traffic in the last 2 years. As a result the firm has sold or parked a large portion of its fleet and must offer rate discounts of 20-25 percent to retain the customers it still has. The company has also reduced employee numbers from 2,500 two years ago to 1,500 today. A company official blames most of the firm's problems on the current economic recession but

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[3/] Even though the Motor Carrier Act of 1980 limits rate changes to 10-15 percent above or below the base rate, a carrier can petition to the ICC for permission to exceed these guidelines. Many existing trucking firms have asked for permission to lower their rates in order to compete with new entrants in the industry. These new entrants have established low rates to gain business. However, the most common reason why rate-cutting has been so severe is the lack of traffic caused by the current economic recession. Rate-cutting in the trucking industry was also widespread during the 1973-75 recession.

quickly points out that easier entry requirements which increase trucking competition certainly do not improve his company's situation.

T. Q. Hutchinson[4/] at the Transportation and Economics Division in the United State Department of Agriculture points out that more time must pass before the true impact of the 1980 Act can be assessed. Many companies who have filed for authorities or extensions are not equipped to offer a high level of service to all their potential customers. Carriers likely will wait until the current recession subsides before undertaking any expansion activities. Hutchinson also suggests that carriers are hesitant to take full advantage of new rate-setting opportunities by designing service packages tailored to the needs of individual shippers. This reluctance stems from an increased uncertainty resulting from the loss of antitrust immunity afforded to them prior to the 1980 Act. Most rate-cutting taking place at the present time generally is not geared to individual shippers.

The provision which increases the amount of non-farm, non-member interstate traffic which agricultural cooperatives can haul is not expected to have much impact on the hauling operations of cooperatives. Prior to the 1980 Act only 106 out of 1,265 agricultural cooperatives conducted interstate hauling operations involving non-farm or non-member goods. The provision will improve hauling efficiences for some cooperatives by broadening the opportunities for backhauling. Most cooperatives, however, do not have much problem finding products to backhaul within their own organization.

[4/] T. Q. Hutchinson, Motor Carrier Act of 1980, National Food Review, Summer, 1981.

Landmark Cooperative in Ohio is not affected by the new provision because most of its interstate shipments are completed through outside carriers. The majority (70-80 percent) of Landmark's truck movements are intrastate and are not regulated by the ICC.

Commodities made exempt by the 1980 Act will probably not undergo much change in terms of volumes shipped interstate. Hutchinson claims that strict quality regulations in respect to interstate movements of feeds, seeds, and plants, remain in effect and will keep to a minimum any increases in shipments of these commodities. However, since exempt commodities tend to be shipped at lower rates than non-exempt commodities, newly exempt commodities may experience a downward effect on prices.

Intrastate Trucking Regulation in Ohio

The differences between interstate trucking regulations and intrastate trucking regulations in Ohio have become more pronounced since the passage of the 1980 Motor Carrier Act. While entry into the trucking industry has eased under new ICC regulations, the Public Utilities Commission of Ohio (PUCO), which grants trucking authorities to intrastate carriers in Ohio, has not modified its own entry guidelines. These regulatory differences have led to much discussion among Ohio shippers, carriers, PUCO officials, and legislators over whether the PUCO should follow the same guidelines as those which have been set by the ICC.

Under the current system, the PUCO publishes a list of hearings to be held each month concerning applications for contract permits and certificates to haul commodities intrastate in Ohio.

The lists are circulated to all registered truck and rail carriers in Ohio. Any carrier who feels that the proposed service would endanger or impair its operations may attend the PUCO hearing and protest the application. The burden of proof is on the applicant to show that the proposed services are needed and would not threaten other businesses.

House Bill 573, sponsored by Representative Gene Branstool, was written "to authorize grain transportation companies to transport grain from elevators to other destinations if they receive grain transportation registration certificates from the PUCO." Since registration certificates cannot be denied to anyone, the bill, if enacted, would effectively remove the PUCO's power to decide which carriers may haul grain intrastate.[5]

H.B. 573 is supported by the Ohio Farm Bureau Federation and the Ohio grain industry. Grain shippers are having difficulty moving grain quickly from elevators to other destinations during the harvest season. With limited elevator capacity, grain must be moved out of elevators as rapidly as possible to make room for additional incoming grain. Elevators would like to minimize the number of times they must refuse a farmer's grain for lack of elevator space. Most grain moves from elevators by rail, but during the harvest season, trucks are needed to supplement grain transfers. The high demand for trucks at harvest time is so short-term that it would be uneconomical for most elevators to buy trucks to move grain.

Currently, any carrier that contracts with an elevator to move grain during harvest must first receive approval from the PUCO. Ele-

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[5] Grain moving from a farm to an elevator is exempt from regulation.

vators complain that it sometimes has taken 8-10 months to receive a ruling from the PUCO after a hearing has been held. To often, the PUCO refuses authorization, especially when another truck carrier has opposed the application. The process of appealing a PUCO decision requires more time and involves high costs from attorney fees.

Proponents of H.B. 573 claim that no grain hauling companies would lose business if all registered carriers were permitted to haul grain from elevators. The bill's supporters point out that the demand for these trucking services occurs almost entirely in the fall when grain hauling trucks are in short supply.

The opponents of H.B. 573 include some trucking firms which argue that strict regulations are needed in the trucking industry to provide a sound transportation system and further the state's economy. Not surprisingly, these firms already have authorization from the PUCO to provide intrastate service, although few of them haul grain. The argument against H.B. 573 is philosophical - if grain hauling is deregulated, what other commodities and restrictions will follow?

Efforts Being Made to Control Transportation Costs

In recent years, transportation costs have increased at rates greater than those in most other cost areas of the firm. Traffic managers and other company officials have recognized the larger role of transportation in the cost scheme of the firm and have sought innovative ways to control these costs. Transportation carriers in turn realize the importance of controlling their costs of providing service in order to protect their profit margins and still compete effectively in the marketplace.

Backhauling is one way in which both carriers and shippers are cutting their costs. Whether or not a carrier is able to haul cargo in both directions of a round trip makes a big difference in the cost of hauling commodities. By distributing round trip costs over traffic in both directions, truck operators are able to hold down trucking rates. Landmark has taken advantage of backhauling opportunities by hauling grain to the Port of Toledo and backhauling potash and other fertilizers to various Landmark facilities. Traffic officials at Landmark claim that backhauling opportunities are unneccessarily limited whenever a carrier has been authorized by the PUCO to haul fertilizer but not grain.

Intermodal transportation of goods is another way shippers and carriers are cooperating to control transportation costs. A prime example of intermodal innovation occurred in the movements of potash from Thunder Bay, Canada, to users in Ohio. Until two years ago potash was shipped by rail from Canada to Ohio. In Canada potash costs about $70 per ton; but the rail rate for transportation to Ohio was $47 per ton. Dissatisfied with high rail rates, potash buyers in Ohio discovered that by loading potash onto laker vessels at Thunder Bay, shipping it to the Port of Toledo, unloading it and carrying it by truck to final destinations they could save about $12-$13 per ton over the costs of shipping by rail.

Today, virtually all the potash used in Ohio is shipped via the Great Lakes to Toledo. Potash now costs about $80 per ton in Canada and rail rates have increased to $62 per ton. The total cost of rail-delivered potash is therefore approximately $142. The total cost of potash delivered to Toledo by laker vessel is about $105 per ton. As long as trucking costs to final destination do not exceed $37 per ton, the intermodal arrangement provides substantial savings.

One disadvantage with shipping potash via the Great Lakes is that 30,000 tons per shipment must be purchased. However, potential storage problems have been worked out through agreements with firms located in Toledo.

Another intermodal innovation which has met with a great deal of success is the trailer-on-flatcar or TOFC. A TOFC arrangement involves simply an agreement between a truck carrier and a railroad to haul semi-truck trailers on railroad flatcars from one point to another. Most TOFC shipments are for distances greater than 500 miles where the energy efficiences of rail can be employed. A truck carrier using TOFC is able to save on total shipping costs while retaining versatile advantages after the trailer is unloaded from the flatcar.

All of the major railroads in Ohio offer TOFC service. Agricultural commodities shipped by TOFC include seed, popcorn, hay, and materials for building barns and sheds. TOFC shipments usually involve products which require special handling and protection. For example, an official at Consolidated Rail Corporation (Conrail) reports that seed is often shipped TOFC and special hybrid seed is carried COFC (container-on-flatcar) to export terminals on the East Coast.

Although TOFC service has been offered since the early 1950s, extensive use of the concept did not occur until the mid-1970s when energy costs rocketed. With deregulation of both the railroad and trucking industries the use of TOFC is expected to increase further.

Effects of Changes in the Trucking Industry

Shippers, carriers, producers, and consumers are all affected by the changes now taking place in the trucking industry. It is difficult to predict how the industry will emerge from the current chaotic, rate-cutting environment caused by an economic recession and relaxed ICC regulations. This last section of the trucking report will discuss how increased competition and the economic recession may affect trucking services in Ohio. It is important to keep in mind that trucking services are affected in different ways according to the regulatory differences between intrastate trucking, which is still strictly controlled by the PUCO, and interstate trucking, which has recently been affected by the Motor Carrier Act of 1980.

Effects on Small Communities

Expected changes in trucking services to small communities in Ohio cannot be discussed in a broad manner. Every community is unique in terms of its geographical location and its demands for trucking services. Some communities which have lost rail service recently will probably experience an increase in truck movements. Other communities which have not lost rail service may experience a decrease in the frequency of trucking services. This may result because a carrier has determined that the volume of products being shipped to or from a community is not sufficient to warrant a high frequency of service. On the other hand, with the current recession most carriers are looking for any business they can acquire and communities might find an increased availability of trucking services.

Effects of Rate-Cutting on Carriers

Since the passage of the 1980 Act, there have been several instances in Ohio where a new carrier has cut interstate shipping rates and has taken business away from existing carriers. While some agricultural shippers may see opportunities to take advantage of rate-cutting in the trucking industry, many of them see rate-cutting as very short-term. These shippers contend that rates are only one consideration when selecting a carrier. Rate-cutting could put out of business some carriers who have had historically good service records. If increased competition will hurt trucking service in the long-term many shippers do not want deregulation of the trucking industry.

Small Carriers Vs. Large Carriers

Whether a truck carrier is a big company or a small one determines what advantages and disadvantages it has in the industry. A large carrier with many shipping facilities along its truck routes can benefit from having more terminals to feed freight into the system, thereby avoiding underutilization of equipment. Yet, large carriers must contend with unions. A union truck driver is paid about $12.80 per hour while anon-union driver can be paid $8.00 per hour. In addition, union carriers must contribute to the Teamsters Union's pension fund. Not only must the carrier contribute to the fund as long as the firm continues to do business, but it is also obligated to pay 1.7 times its contributions from the last 5 years if it goes out of business.

A small carrier usually does not have to pay high union wages nor is it burdened by a hugh pension obligation. New entrants have been able to take advantage of bargain prices for truck equipment which is being sold by carriers who are either trying to reduce their fleet or who have gone bankrupt. However, these advantages enjoyed by new entrants and small carriers are countered by the fact that small carriers have fewer terminals to feed their routes. This results in frequent underutilization of equipment and rates which must be set high enough to recover the costs of empty back-hauls, etc. Another disadvantage for new entrants is rampant rate-cutting which prevents new entrants from earning sufficient revenues to make payments on the high-interest loans which they took out to enter the trucking business.

An Unclear Future

Nobody knows whether the Motor Carrier Act of 1980 will indeed result in both competitive prices and better trucking services. There are reports coming from the United State Department of Transportation that regulation in trucking might soon return in full force if bankruptcies in the industry continue. Other officials believe that smart management will prevent trucking firms from succumbing to recessions and increased competition.

There are many issues for shippers, carriers, and public officials to consider when planning strategies and making decisions. In Ohio, most people who are knowledgeable about the trucking industry agree that more time is needed before it can be determined whether changes should be made in either interstate or intrastate regulations.

In the short-term, Ohio agriculture can expect an increased turnover of trucking firms in the industry. Today it is both easier for a firm to enter the trucking industry and easier for it to go broke trying to conduct business in a competitive, high-interest rate environment.

Increased rate and service variability should continue to offer new transportation opportunities for Ohio agriculture. However, rates and quality of service should be considered together whenever trucking services are being evaluated.

The 1980 Motor Carrier Act allows carriers increased freedom to offer special services to individual customers. This improved flexibility offers new ways for truck users in agriculture to increase the benefits they receive from each dollar spent on transportation.

Finally, the current upheavals taking place in the trucking industry and in transportation overall will require much closer monitoring by management and regulatory officials. Whether or not a transportation system is effective and efficient makes a big difference in both the profitability of private industry and the economic welfare of the country.